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ABSTRACT

New York State should develop a comprehensive justification for its involvement in minority business development and each State program should be closely associated with that rationale. Minority business development programs are often short-sighted, potentially conflicting, and yield unimpressive results. Development of Economic Development Zones would assist minority and women-owned businesses and could be essential to the total revitalization of distressed communities. The following specific recommendations are included: (1) purchase a specific proportion of goods and services from minority businesses; (2) implement a uniform system to penalize non-compliance with affirmative action obligations in both construction and purchase contracts; (3) increase participation on an equity basis in minority and women-owned businesses, and encourage participation by the private sector; (4) encourage minority venture capital in the private sector by using creation, establishment, and participation in such programs as criteria in the evaluation and selection of banks that compete for State business; (5) review all financial and technical assistance programs and business tax incentives programs to eliminate prohibitions that preclude participation by minority businesses; (6) encourage small business employers to locate in distressed communities and establish tax incentives for employee stock ownership plans; (7) continue support for the Urban Development Corporation (UDC) program to increase the bonding assistance contract ceiling; and (8) encourage private investment in the recently created Economic Development Zone Capital Corporations. Statistical data are included on four tables, and a discussion and summary of recommendations to the governor's proposed Opportunity Zone legislation is appended. (FMW)

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VOLUME 5
ECONOMIC DEVELOPMENT

MINORITY BUSINESS DEVELOPMENT AND ECONOMIC DEVELOPMENT POLICY IN NEW YORK

IMPLICATIONS FOR BLACK ENTREPRENEURS AND COMMUNITIES

REPORT OF THE SUBCOMMITTEE ON ECONOMIC DEVELOPMENT

THE GOVERNOR'S ADVISORY COMMITTEE FOR BLACK AFFAIRS

OCTOBER 1988

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EXECUTIVE DIRECTOR

STATE CAPITOL
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TWO WORLD TRADE CENTER 57TH FL
NEW YORK NY 10047

Dear Governor Cuomo:

I am pleased to submit to you the report of the Subcommittee on Economic Development and Finance of your Advisory Committee for Black Affairs entitled: Minority Business Development and Economic Development Policy in New York: Implications for Black Entrepreneurs and Communities.

The Subcommittee on Economic Development and Finance focused its attention on two policy areas: minority business development and community master planning. With respect to the latter issue, the Subcommittee devoted considerable attention during its early stages to reviewing and commenting upon the New York State Economic Development Zones Act of 1986. The concerns of the Subcommittee regarding support for minority-owned businesses in the proposed Economic Development Zones were addressed in meetings with representatives of the Urban Development Corporation and summarized in a letter to Bernard Charles, Chairman of The Governor's Advisory Committee (see appendix A). Among the recommendations made pursuant to the "opportunity zones" legislation were: provision of a mechanism for the State funding of venture capital corporations to provide "seed" capital to minority-owned small businesses which have limited access to traditional lending sources and the inclusion of incentives to stimulate the building and rehabilitation of low- and middle-income housing.

This report addresses the broader policy issue of minority business development in New York State with specific attention paid to its impact on Black entrepreneurs and communities. Following a review of the advantages generally associated with small business development, the objectives of establishing Black-owned firms in the Black community are analyzed and the conclusion is reached that while the growth of these small firms can be beneficial, they cannot be viewed as the primary means of integrating Black entrepreneurs into the mainstream of the State's economy. To this end, the Subcommittee recommends that "New York State develop a well-articulated rationale for its involvement in minority business development."

The persistence of racial discrimination as a barrier to Black business development also has been identified as a subject for State policy formation. Statistical evidence of Black business failures manifested by undercapitalization, marginal human capital accumulation and lower personal income and assets are largely attributed to racial discrimination. Thus, Government initiatives which mitigate racial discrimination in the labor market and business sphere can positively impact on the development of Black business enterprise.

In Chapter II, Minority Business Development and State Policy Formation, the range of State programs are reviewed. Amid what the Subcommittee describes as a "crises management scenario", traditional incentives to aid small businesses are promulgated with limited cognizance of the special needs of small Black businesses. To alleviate the insularity of the State agencies and public authorities, which administer minority business assistance programs, recommendations are submitted which would "set aside for minority vendors a specific proportion of goods and services purchased by New York State, establish a centralized monitoring system to assess procurement practices and affirmative action efforts and review all financial, technical assistance and business tax incentive programs to eliminate obstacles precluding minority participation."

Needless to say, the economic viability of the Black community is inextricably tied to the extent to which Black enterprises share equitably in the State's economy. The Subcommittee is persuaded that an aggressive role for the State which stresses investment in human resources and capital formation in the Black community, State equity participation in Black-owned businesses and State encouragement of private sector financing of minority businesses can yield positive long-term outcomes.

In many respects, the Subcommittee's Report and Recommendations, adopted by the Advisory Committee, reinforce and expand existing State Programs and initiatives. The impetus provided for minority and women - owned businesses by Executive Order #21 is acknowledged as well as the potential impact of the Omnibus Economic Development Act of 1987, which includes the Revolving Loan Trust Fund. Of major significance is the Economic Development Zones Act of 1986, which provides a comprehensive approach to the revitalization of distressed communities, which are disproportionately Black. In our judgment, major aspects of existing State programs combined with the recommendations contained herein reconstituted as a focused strategy for enhancing Black business development is both necessary and feasible.

The Subcommittee on Economic Development and Finance, co-chaired by Paul Chester and Garland Wood, is commended for its exemplary performance in completing this report. We are particularly grateful to Ms. Chester for her leadership during the extended process and to Dr. John Jeffries for his academic expertise.

Sincerely,

Bernard L Charles

Bernard L. Charles
Chairman

STATE OF NEW YORK
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ALBANY, NY 12224

TWO WORLD TRADE CENTER, 57TH FL
NEW YORK, NY 10047

June 20, 1988

Dear Chairman Charles:

The Subcommittee on Economic Development and Finance is pleased to submit its report on Minority Business Development. The enclosed report entitled, "Minority Business Development and Economic Development Policy in New York: Implications for Black Entrepreneurs and Communities", has been a cooperative effort between the Subcommittee's members, which represented the largest and most diverse group of members of the Advisory Committee for Black Affairs.

Our Subcommittee began its investigations with its extensive involvement in analyzing and commenting on the New York State Economic Development Zones Act of 1986. While recognizing that this legislative initiative represents a good beginning to creating a mechanism for commuity master planning in chronically distressed areas of the State, we continue to reiterate our concern for more State reinvestment. Reliance on the private sector and local governments for success without meaningful financial and technical assistance from the State, obfuscates the true partnership necessary for implementing a strong program.

The enclosed Report also examines Black entrepreneurship in New York State with specific attention to both current programs as well as the appropriate role State government should play in fostering Black business. The Report concludes with a summary of recommendations that should be explored by the State.

We appreciate the opportunity to serve the people of the State of New York. We hope that this Report will serve you in your continuing development of meaningful initiatives for Black entrepreneurship in New York State.

Sincerely,

Paula L. Chester
Co-Chair, Subcommittee
on Economic Development
and Finance

Garland Wood
Co-Chair, Subcommittee
on Economic Development
and Finance

State of New York

Executive Chamber

No. 66

EXECUTIVE ORDER

ESTABLISHING A GOVERNOR'S ADVISORY COMMITTEE FOR BLACK AFFAIRS

WHEREAS, members of the Black community have contributed significantly to the State and its government to the benefit of all of the people in the State; and

WHEREAS, the State must continue to be responsive to the special needs and concerns of its Black residents; and

WHEREAS, a mechanism must be established to ensure that members of the Black community have opportunities to participate in all levels of government;

NOW, THEREFORE, I, Mario M. Cuomo, Governor of the State of New York, by virtue of the authority vested in me by the Constitution and the Laws of the State of New York, do hereby order as follows:

I. Governor's Advisory Committee for Black Affairs

There is hereby created a committee to be known as the Governor's Advisory Committee for Black Affairs (the "Committee"). The members of the Committee shall be appointed by the Governor. A chairperson and vice chairperson shall be designated by the Governor. The members of the Committee shall receive no compensation, but shall be entitled to reimbursement for any necessary expenses incurred in connection with the performance of their duties. The Governor shall designate an executive director of the Committee who shall be responsible for its administrative functions.

II. Purpose and Responsibilities of the Committee

1. The Committee shall identify and evaluate areas of particular concern to the Black community and submit recommendations to the Governor for his review. The Committee shall place special emphasis on the following areas:

   a. development of increased opportunities for involvement of Blacks in all aspects of State government.

   b. coordination of resources to create effective educational, vocational and health training programs.

   c. evaluation of policy decisions affecting the Black community.

   d. evaluation of programs and services provided by State agencies and their impact on the Black community.

   e. development of awareness programs to assist members of the Black community in identifying and participating in programs sponsored by the State and local governments.

2. The Committee shall create a panel, whose members shall be designated subject to the approval of the Governor, to address the unique concerns of the Black family, with particular emphasis on households headed by Black women. The Commissioners of Human Rights, the Director of the Women's Division and the Executive Director of the Council on Children and Families or their designees shall provide assistance and advice to the panel.

3. The Committee shall establish subcommittees, which shall make recommendations concerning the special needs of various Black cultural and ethnic populations, including the Caribbean community. Such subcommittees shall periodically submit reports to the Committee for its consideration and adoption.

4. The Committee, in conjunction with the Governor's Executive Committee for Affirmative Action, shall review the implementation of affirmative action programs designed to increase employment opportunities for Blacks in State government.

5. The Committee shall report on a regular basis to the Governor on its activities.

6. The Committee may request and shall receive from any department, division, board, bureau, commission or agency of the State such assistance and data as will enable it to carry out its purpose and responsibilities hereunder.

GIVEN under my hand and the Privy
Seal of the State in the City of
Albany this fifth day of
June in the year one thousand
nine hundred eighty-five

L/S

BY THE GOVERNOR

/s/ Mario M. Cuomo

/s/ Michael J. Del Giudice
Secretary to the Governor

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BIOGRAPHIES

PAULA L. CHESTER

Paula Chester is a Partner in the law firm of Berger and Steingut where she specializes in corporate securities, including representation as underwriter's counsel in both public and private offerings. Previously she was an attorney with the Securities and Exchange Commission in the Division of Corporation Finance. During that time she served as Special Counsel to the Office of Small Business Policy; as such she was the principal author of the Commission's Regulation D, a series of six rules governing the private offering and sale of securities. Ms. Chester developed other rule matters concerning the capital formation process of small businesses, such as the classification of small companies in connection with their obligations under the Securities Exchange Act of 1934. She has been a panelist on ABA seminars and a participant on numerous other panels concerning the private offering of securities. A principal author of "Regulation D: New Opportunities for Small Business" (Barrister magazine, Summer, 1982). Ms. Chester is a member of the American Bar Association (member, Corporation, Banking and Business Law Section; Committee on Federal Regulation of Securities, since 1981; Committee on Small Business, since 1983). Ms. Chester is a graduate of the University of Michigan, Morgan State University and the University of Maryland Law School.

FRANK J. CORBETT

Frank Corbett is currently Clinical Associate Professor, School of Social Work, State University of New York at Buffalo. Previously, he served as Director of the Office of Urban Affairs (1980-86). His experience includes administrative positions with community organizations membership on several Boards of Directors, including the National Institute of Public Management and consultancies with local Black educational and cultural organizations. Mr. Corbett graduated from Johnson C. Smith University with a B.A. degree and later received and M.A. degree from the University of Chicago.

PAULA J. GIDDINGS

Paula Giddings is the author of When and Where I Enter: The Impact of Black Women on Race and Sex in America (William Morrow; Bantam Books). In 1986 Ms. Giddings participated in the United Negro College Fund Distinguished Scholars Program, and taught at Spelman College in Atlanta, Georgia, for the 1986-87 school year. Presently, she is a contributing and book review editor for Essence magazine. During her career, Ms. Giddings has written for the New York Times Book Review, the Nation, the Washington Post, the International Herald Tribune, the Philadelphia Inquirer and Jeune Afrique (Paris), among other publications. Books in which her poetry and criticism have appeared include: We Speak as Liberators: Young Black Poets (Dood, Mead); Black Women Writers: A Critical Evaluation (Doubleday); Contemporary Criticism (Bowker) and Amistad 2 (Random House). She has received a Ford Foundation grant and awards from the National Coalition of 100 Black Women, the New York Urban League, the Westchester Black Women's Political Caucus and the Howard University Alumni Club, among others. Ms. Giddings is a graduate of Howard University.

WILLIAM HALL

William Hall has been Executive Director of Baden Street Settlement Inc. since 1969. His prior experience includes service as a manpower specialist for the Xerox Corporation and Executive Director of the Rochester Urban League. Mr. Hall's extensive involvement in the Rochester community includes leadership positions in several organizations such as: President of the Rochester School for the Deaf, Vice President of the Anthony L. Jordan Health Center and Vice President of Rochester Jobs, Inc. In addition, he is a member of several professional organizations, among which are the Rochester Chamber of Commerce, the Rotary Club of Rochester and the Urban League of Rochester, Inc. Mr. Hall is a graduate of the Rochester Institute of Technology with a degree in Business Administration. He is also a U. S. Army veteran.

WALDABA STEWART

Dr. Stewart is the Administrator of the Mid-Brooklyn Health Association. Prior to this he served as a New York State Senator for 1968-1972. Dr. Stewart has held several prominent positions including Associate Director of the Bedford Stuyvesant Youth Association and Reading Specialist in several public schools in the Bedford-Stuyvesant Brownsville areas. Dr. Stewart serves as the New York City Chairman and the National Vice Chairman of the Community Advisory Board of Kings County Hospital and Director of the Caribbean Trade Association. He received his Masters degree in Education from Hunter College and his Ph.D in Economics from Union Graduate School in Ohio.

GARLAND WOOD

Garland Wood is a partner with the investment firm of Goldman, Sachs, & Co., specializing in Municipal Finance. Mr. Wood joined Goldman, Sachs & Co. fifteen years ago. Prior to joining Goldman, Sachs & Co., he held positions with Mobil Oil Corporation and Asiatic Corporation as a marketing representative and economist respectively. He is a member of the board of directors of the New York Council of The Boy Scouts of America. He is also a member of the Speaker's Club of the Democratic Congressional Campaign Committee. Garland Wood received a B.A degree from Columbia College and an M.B.A. degree from Columbia University's School of Business.

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EXECUTIVE SUMMARY

Minority business development programs are often short-sighted, potentially conflicting and yield less than impressive results. The objective, however, should not be to simply select a rationale for State involvement in minority business development encouraging all small businesses as a single group. For example, minority business development programs should be implemented because they are "consistent with the State's overall economic development strategy" and the overall strategy should be well-articulated and reflect input and continued development from minority entrepreneurs and their advocates. Another rationale suggests that minority business development programs assist economically disadvantaged workers in the movement from wage work, or public assistance, to self-sufficiency by means of self-employment. Should such a rationale be invoked, those programs should be especially sensitive to assisting new firms and start-ups with little regard for the number of job opportunities it may create. Welfare workers, unemployed workers and dislocated workers will be recipients for assistance and awards if such is the rationale to implement new programs. Minority business development programs that are justified by their capacity to "stabilize the local economy of distressed communities" must be implemented in tandem with other State initiatives such as infrastructure improvements, increased day care, and of course, increased development of low-and middle-income housing if such programs are to be judged for effectiveness. Only then can such programs be adequately tested for determining their "multiplier" effect.

Clearly, a comprehensive rationale might include all of these aspects. But more importantly, each program must be closely associated with one of the specific rationales, the aggregate of which constitutes a comprehensive justification for State involvement in minority business development. The Subcommittee strongly recommends that: New York State develop a well-articulated rationale for its involvement in minority business development.

Within State agencies and departments, finance officers should be required to compile data and information indicating the products each agency typically purchases. With the help of agency affirmative action officers and the Directory of Certified Minority and Women-Owned Business Enterprises, minority vendors capable of meeting the agency demand can easily be identified. More aggressive recruitment of minority purchasing agents within State agencies would also enhance State purchases from minority vendors. Service contracts, like construction contracts, should be advertised to the public. With regard to State purchasing contracts, the Subcommittee recommends that a specific proportion of the goods and services that New York State buys should be set aside to be purchased from minority vendors.

New York State should develop a uniform system to penalize non-compliance in both construction and purchase contracts. This system might be modeled after the Battery Park City and Urban Development Corporation (UDC) liquidated damage clauses which impose a cash penalty on firms that do not comply with contracted affirmative action obligations even if detected 10 years after any project begins or after any goods and services are procured. The Subcommittee gave serious thought to the need to establish a centralized monitoring system with respect to procurement practices and recommends that: the State should implement such a system which will enhance each authority's affirmative action efforts and contribute to the Department of Economic Development's central information gathering capacity.

If business assistance programs are to significantly assist Black firms in their varying stages of development, programs should be designed to reflect that diversity. More specifically, equity financing and seed capital programs should be designed to meet the needs of new and infancy stage minority firms. Criteria for investment decisions should not reflect or duplicate those applied in making credit decisions. Moreover, the rationale for such programs should not hinge merely on the potential for job employment opportunities; rather, they should be encouraged for both the positive and multiplier effect in distressed communities as well as encouragement of participation by Blacks in the American dream. New York should make a concerted effort to increase its participation on an equity basis in minority and women-owned businesses and initiate several State initiatives to encourage participation by the private sector.

The Committee recognizes, however, that the role of public policy should not be to correct all of the problems faced by minority businesses and should, therefore, not endeavor to provide an otherwise totally risk-free environment. However, the Government should intercede when market forces have repeatedly failed to permit inclusion of minorities in the capital formation process. This can be done by creating a nurturing atmosphere for business development by supporting or subsidizing the equity participation of traditional banking sources. This is particularly true in the State of New York where the concentration of financial institutions and services dominate the State's economy. Various State incentives for encouraging private participation should be explored as quickly as possible. Such incentives that should be considered are as follows:

a. The creation of venture capital funds by the State which would leverage its dollars on a dollar-for-dollar basis with those invested by private firms.

b. The use of State guarantees for a specified percentage of a return on an investment by private venture capital and investment banking firms establishing or underwriting pools of equity capital for minority firms.

c. The employment of State tax credits for private firms to create such pools of capital for minority-owned firms.

d. The development of new financial instruments for private investors, which would provide, on the State level, tax-free income for a return on monies invested by private firms to minority-owned firms along with individual or corporate tax credits for those funds invested. A similar tax credit is already incorporated into the New York State Economic Development Zone Act of 1986 for monies invested in Zone Capital Corporations, created by the Act. Thus, this concept can be expanded to equity investments in minority-owned firms wherever such firms are located in the State.

e. The employment of tax and real estate incentives and the contribution by the State of State-owned property for the development of incubator centers, without the requirement that such centers be established by not-for-profit corporations. While the Committee recognizes that the 1987 Act authorizes the Department of Economic Development to provide grants to not-for-profit organizations for Enterprises Development (incubator) Centers, the development of such centers is limited merely to not-for-profit corporations, many of which may not themselves have the needed resources to develop effective centers. Moreover, incubator centers should not be viewed merely as training centers, but, rather, should be viewed as another method of providing equity capital by contributing rental facilities at rates significantly below market, technical assistance and support services, such as secretarial, payroll and bookeeping, word processing, etc.. Such centers should be developed, however, with the sponsor of a center, which may, of course be the State, having an equity interest in each of the businesses contained in the center in return for the services and space provided. Only with the development of a profit motive can such centers ever, in fact, be expected to develop and prosper.

New York should make a concerted effort to increase its participation on an equity basis in minority and women-owned business and initiate several State initiatives to encourage participation by the private sector.

Most public agencies and authorities use criteria such as employment characteristics in selecting investment firms and bond or agency counsel which are competing for municipal business. The same concept should be considered for evaluating investment firms which have created venture capital funds for New York State minority business. Therefore, the Subcommittee recommends that: the State encourage minority venture capital programs in the private sector by stating that the creation, establishment and participation of such programs shall be a criterion in the evaluation and selection of banks and investment banking firms which continually compete for State dollars. Many real estate, sales and other tax incentives preclude participation by firms engaged in the retail or service industries. The recently enacted Economic Development Zone Act provided many tax incentives but only to those companies engaged in "manufacturing." In addition, sales tax credits were available only to those companies not engaged in the retail sector. An even more glaring flaw may be gleaned from the prohibition contained in the investment tax credit section of the Economic Development Zones Act which disallows a credit to taxpayer who leases property. Accordingly, and as more fully described in our letter dated June 23, 1986 expressing our comments to the Governor, such credits encourage development of non-minority firms in distressed communities and inadvertently discriminate against minority firms where participation by local minority entrepreneurs would, naturally, be most likely encouraged. And, in the case of the "leased property" prohibition for the investment tax credit, there is no State interest rationale for denying such a credit to developers of office buildings and industrial parks which may, very likely, be leased to small or start-up ventures. Conversely, such development should be encouraged. To assist with the development of such ventures the Subcommittee proposes that: there should be a review of all financial and technical assistance programs and business tax incentives programs to eliminate various prohibitions that effectively preclude participation by minority businesses.

Stock ownership plans have traditionally provided a valuable incentive for increased productivity, while at the same time providing employees an equity share in such increased productivity. Therefore, the appropriateness of tax credits or some other similar incentive to employers that implement employee stock ownership plans for their employees (which must, necessarily, provide ownership levels above minimum levels) should be explored. Likewise, dividends paid or accrued on stock acquired by employees pursuant to such plans should not be includable in such employee/taxpayer's calculation of income for State personal income tax purposes. Indeed, the Subcommittee felt strongly that employees who invest in distressed communities should be rewarded. Therefore, the Subcommittee proposes that: small business employers should be encouraged to locate in certain distressed communities and should be rewarded for entering into "partnership" with area employees by the establishment and implementation of certain tax incentives for substantial employee stock ownership plans.

In a letter to Anthony Gaetano, Vice President, Urban Development Corporation, dated November 3, 1986 (appendix B) the Committee expressed its concern with respect to the creation of a mechanism for funding the Zone Capital Corporations established pursuant to the Economic Development Zones Act. Not only does the Committee believe that the State should be a "risk-taker" by investing in economic development zones and the businesses operating therein, but the State should encourage such participation by our major financial institutions. Accordingly, serious consideration should be given to a pool of funds which, in turn, invests in Zone Capital Corporations. Incentives for such participation by a consortium of financial institutions can include those enumerated under Recommendation No.4 of this report. The State should nevertheless, be the initiator of such a program since, without its involvement, no such funds are likely to develop. The role of the public sector is not merely to create the instrument, but to invest in it and instruct others to do so as well. The Subcommittee therefore proposes the following: continued support for UDC's attempt to increase the bonding assistance contract ceiling from $500,000 to $1 million is essential as an increasing number of minority and women contractors are to participate in and benefit from the State's economic development.

Furthermore, the State should explore opportunities to encourage private investment in the recently created Economic Development Zone Capital Corporations established by the New York State Economic Development Zones Act.

In our letter of recommendations to the Governor, the sub-committee expressed its view that the Economic Development Zones Act should be the basis for community master planning so that support services such as health and day care services, infrastructure improvements and adequate housing become essential components of long-term community revitalization. We continue to support the view that the State should be in partnership with both private business and local government. Without meaningful participation by the State to create an environment for private business growth, no significant improvements can be expected. Such State initiatives that should be considered are as follows:

a. funding assistance by the appropriate State agencies for self-help programs initiated by zone residents to make improvements such as parks, playgrounds and other recreational facilities.

b. tax credits or similar incentives to employers who, either alone or in cooperation with other zone employers, implement, support or facilitate, the location of quality child care programs for their employees. Access to adequate child care will ensure greater opportunities for employment by those who are currently not in the labor force.

c. create training and technical assistance programs in the financial services, information processing and telecommunications industries or other professional service-oriented industries that have become major components of New York's economy. The contraction of the large manufacturing industries in New York State where Blacks were concentrated in the traditional blue-collar work force, has resulted in severe unemployment levels for unskilled and semi-skilled workers who have not been absorbed in those service industries that have replaced manufacturing. While incentives may be created to encourage relocation of manufacturers into economic development zones, undue reliance on their relocation to develop job opportunities is short-sighted and unrealistic.

We reiterate our concerns regarding increased State initiatives in the development of Economic Development Zones which are essential to a total revitalization of distressed communities.

INTRODUCTION

Minority business development has emerged in recent years as a topic of particular relevance to the economic status of Blacks. Adding to this renewed interest are significant advances in our understanding of the small business sector's contribution to the larger economy and a growing curiosity in state government's role in economic development policy.

The Subcommittee on Economic Development and Finance of the State of New York Governor's Advisory Committee for Black Affairs focused its attention on two areas: minority business development and community master planning. In addressing itself to the latter issue, the Subcommittee devoted much of its attention during its early stages in reviewing and commenting on the New York State Economic Development Zones Act of 1986. In doing so, committee members met with several representatives of the Urban Development Corporation and, by letter dated June 23, 1986 to Mr. Bernard Charles, Chairman of the Advisory Committee, submitted its comments and recommendations to the Governor (see Appendix A).

This report focuses on minority business development in New York State with specific attention paid to its impact on Black entrepreneurs and communities. It also addresses the appropriate role a state government should play in fostering economic development policy. Minority business development and assistance programs are described, and specific policy recommendations are presented in an effort to more precisely identify the links between minority business development and economic development policy.

I. TRADITIONAL ADVOCACY FOR BLACK BUSINESS DEVELOPMENT

The Merits of Small Business Activities

The idea that small businesses are the primary generators of employment opportunities in our economy has greatly influenced current thinking regarding the role and importance of small firms in the U.S. economy.

In 1979, David Birch estimated that "on average, about 60 percent of all jobs in the United States are generated by firms with 20 or fewer employees."[1] More modest estimates are in the 35 to 45 percent range. In addition, more recent research contends that small firms are responsible for a disproportionate share of new technology, accounting for more than one-half of all technological innovations. Within the context of national and state "industrial policy" proposals and strategies more specifically designed to improve productivity, this latter finding has stimulated significant interest in small businesses.

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[1] David L. Birch, The Job Generation Process (Cambridge: Center for the MIT, 1979)

Small businesses are also often pointed to as concrete evidence of a functioning, competitive free enterprise system. According to traditional economic theory, an essential characteristic of the free enterprise system is the perfectly competitive market. Under perfectly competitive conditions, no single firm can affect the market in which it operates. Therefore, competitive firms are considered individually powerless because their particular economic impact is small relative to the entire market. Another essential characteristic of competitive markets is that firms cannot conspire to artificially fix the market price. It is for these reasons that small businesses are often touted as a bulwark against market power and non-competitive economic arrangements.

Therefore, it is argued that the positive efficacy of small business formation and activity manifests itself in a variety of ways. It is suggested further that these three especially attractive returns associated with small business activity are significant to the maintenance of a strong free enterprise system: employment growth, technological innovation, and the fostering of a free and competitive economic atmosphere. These rationales are employed liberally and with equal conviction when discussing Black business development.

Black Business Development and the Black Community

In addition to the arguments regarding small business in general, proponents of Black business development make reference to specific dividends that the Black community at large receives as a result of Black-owned business activity. As an example, it is argued that there are particular advantages to be gained from Black-owned business activity that is conducted within Black neighborhoods or communities. Three suggested potential impacts of such business location are: the positive spin-offs due to a multiplier effect; the achievement of economies of agglomeration; and a positive demonstration effect.

Based on the principle of the multiplier effect, any given economic initiative can generate economic activity beyond the original sphere of activity. For example, because every business is linked to goods and services provided by other businesses, money spent by a neighborhood firm often becomes income for other neighborhood firms. Therefore, if a business expands within the neighborhood, the demand for the output of the supporting firms is increased. Thus, the initial expansion by one Black-owned neighborhood firm would generate further rounds of local income and employment growth, which would not occur in that community if the firm were located and expanded outside that community. Similarly, assuming that employees tend to spend a proportion of their income near their place of work, then the likelihood and magnitude of local income flows are increased by the existence of neighborhood-based Black-owned businesses.

A second potential benefit derived from locating Black-owned firms in predominately Black neighborhoods is the achievement of economies of agglomeration -- the clustering of economic activity. Such economies occur at the community or neighborhood level both for producers, who favor locations that can provide a full line of supporting business services, and for consumers, who are strongly attracted to retail centers that offer an array of goods. Presently, many urban, predominantly Black neighborhoods lack a range or variety of business or consumer service establishments, the consequence being that potential businesses shy away from those locations. Therefore, we believe that any action which successfully promotes service establishments, especially those that support small firms, within Black neighborhoods renders those neighborhoods more attractive to other firms. Among the desirable clustering establishments mentioned most often are banks, (either a branch of a large commercial chain, a neighborhood savings and loan, or credit union), and other assorted business services, including accountants and lawyers. It is very often stated that these supporting firms and business operations should be Black-owned and/or operated as well. The economies of agglomeration are such that the more existing service activity in a Black community, the more attractive the community becomes not only from a small Black business point of view, but also in terms of the economic health of the community at large.

The third impact of Black business activity in Black neighborhoods is the positive demonstration effect. The demonstrated success of Black business activity appears to be more visible to Blacks when it occurs inside the community than if it were to occur outside the community, although there have been recent successes which have gained national attention that suggest the contrary. This demonstration effect may also have a positive impact on those business institutions located outside the community that have formulated negative perceptions of Black businesses or entrepreneurs. The establishment of a successful, competently-managed, and readily identifiable group of small Black businesses within Black communities may, at the very least, alter negative opinion such that Black-owned firms might gain greater access to the resources and opportunities required for future and sustained Black business ventures. Such resources are typically owned and/or controlled by non-Black institutions outside of the community.

As illustrated, traditional advocacy for Black business development draws upon a variety of arguments, the aggregate of which represents a strong case for Black entrepreneurship. Very often, however, when the desirability of Black business development is considered from an economic or social policy perspective, only one or two of the above arguments receives attention and, quite often gets "merged" with the traditional rationales associated with small business as a whole. It is the contention here that such oversimplification, which occurs as the direct consequence of over-emphasizing any one or two of the above arguments, severely weakens more sound justifications for public policy's involvement in the development and expansion of Black enterprises.

For example, two of the above rationales are often conflated. References to the job-generating capacity of small firms and the increase of Black employment due to the increase in the number of Black firms are often fused to suggest that small Black firms generate a significant number of jobs for Blacks. Yet, the most readily available Census Bureau data suggests otherwise. Nationally, although there was a significant increase in the number of Black-owned firms between 1977 and 1982 (Table 1), the number of Black-owned firms with paid employees (see Table 2) actually fell 3 percent over the same period. That decline stands in stark contrast to the 63 percent increase in such firms, between 1972 and 1977. Although the number of Black-owned firms in New York State increased from 1977 to 1982, including those with paid employees, the growth rate for all

Black-owned firms, including those without paid employees, was over ten times that of those with paid employees (see table 3).

The national data also suggest that it is larger, not smaller, Black-owned firms that account for the bulk of employment growth in recent years, although such firms nevertheless meet the "small business" definitions promulgated by the U.S. Small Business Administration. The number of Black-owned firms with more than 100 employees grew from 74 to 136 between 1972 and 1982 (see table 4). While the number of workers in firms of this size nearly doubled over the decade, increasing by 93 percent, employment in all Black firms rose less than 13 percent. In the more recent period from 1977 to 1982, firms of this size increased the number of employees by 25 percent and by 1982 provided 21 percent of employment in Black firms, up from 12 percent in 1972 and 17 percent in 1977. Employment growth in the larger Black-owned firms offset employment decline within smaller Black firms, resulting in a 1 percent increase in aggregate Black business employment from 1977 to 1982. Of the 18,600 jobs added by Black firms since 1972, larger Black firms supplied the lion's share, 90 percent (16,800).

Therefore, too much emphasis on the employment-generating capacity of small firms or the presumption that Black enterprise formation leads to significant increases in Black employment detracts from the potential importance of each of those truisms and creates an artificial and unreasonable burden for the Black entrepreneur to overcome when reaching out for state-supported financial assistance for which job creation is a determinative factor. Clearly, small firms create jobs, and many Black-owned firms hire Black employees. However, by transforming either or both of these issues into the sole or primary justification for Black enterprise development, one runs the risk of contradicting the empirical evidence. Similarly, by asserting that the location of Black-owned firms within Black communities is primarily beneficial to the community at large, one grossly exaggerates any identifiable multiplier effect.

When singled-out or isolated, none of the traditional rationales makes a compelling argument on its own terms, irrespective of its pervasiveness. It is both more accurate and more effective to consider each of the traditional and widely-held views as a potential positive benefit associated with the expansion of Black business development, rather than as the reason why Black enterprise development is desirable from an economic or social policy point of view.

Racial Discrimination and Black Business Development

More important from the perspective of those concerned with the formation of public policy is the extent to which racial discrimination, in its institutional and private forms, affects

Black entrepreneurship. The observations of business analysts and interested laypersons reveal three typical characteristics of Black business, relative to majority owned firms; they are usually small (measured by the number of paid employees and/or the dollar value of gross receipts); they experience much higher failure and much lower formation rates; and they typically suffer from retarded growth and undercapitalization. Although many factors contribute to these bleak characteristics, racial discrimination is a primary contributor to the adverse business conditions confronting the majority of Black-owned firms. Further, the consequences associated with discriminatory activity are manifested most clearly by the fact that Black firms are routinely found in disadvantageous economic circumstances due to limited access to capital and limited efficiency (human capital/management expertise). It is these conditions which government should address through financing programs, procurement programs and technical assistance.

Racial discrimination in the labor market, likewise, results in severe consequences for Black entrepreneurship. Primary among those consequences are low-income and marginal, (and/or inferior) human capital acquisition and accumulation. Entrepreneurship often begins with the accumulation of assets, which are converted to capital to initiate a business venture or serve as collateral or leverage sufficient enough to attract additional capital for investment purposes. Unfortunately, within Black communities the pooling and accumulation of assets are virtually non-existent. For Blacks, labor market discrimination has generated such low incomes that the amount and type of assets acquired is not readily accepted as collateral by private lending institutions. This predicament stands in sharp contrast to white communities, especially with respect to the level of earned incomes and the frequency with which white-owned business enterprises are initially financed by equity positions taken by families, friends, and other members within that community.

A second consequence of labor market discrimination for Black entrepreneurship is rooted in its negative impact on the transition from wage or salary-earner to self-employed. Labor market discrimination has resulted in many Black labor force participants, current and former, experiencing sporadic and/or static labor market attachment. Moreover, New York's increased reliance on the administrative and professional service industries, which has shown continued reluctance to create meaningful job opportunities for Blacks, has resulted in a disproportionately smaller pool of Black workers, thus an inability to capitalize on the continued growth patterns of those service industries. Yet it is from this pool that Black entrepreneurship is most likely to develop. Consequently, Black labor force participation has produced little or no exposure to jobs or occupations within firms where the skills learned facilitate an informed transition to self-employment.

Therefore, racial discrimination prevents many Blacks from becoming entrepreneurs, and adversely affects the tenure of those who are entrepreneurs. Thus, government initiatives which combat and mitigate racial discrimination in the labor market and the business sphere will, likewise, directly impact on the development and sustained growth of minority business enterprises.

II. MINORITY BUSINESS DEVELOPMENT AND STATE POLICY FORMATION

Broadly speaking, State involvement in Black business development should be conceived as part of a larger strategy designed to accomplish well-articulated, identified, and agreed-upon economic and social policy objectives. In addition, business development strategies must be keenly aware of the fact that varying and multiple product markets shape the State's business activity and economy. In the absence of broadly conceived policy objectives and the monitoring of market conditions, State promotion of Black business development has often been approached more narrowly and in an ad hoc fashion. Consequently, business assistance program development is pursued in an attempt to meet the generic needs of small and minority-owned businesses as they are articulated by individual members of the small and Black business community. The resulting State programs are usually initiated because the unmet needs of small and minority-owned businesses are brought to the State's attention either in times of political crisis or by an individual small business owner's personal and often desparate economic circumstances.

Thus, New York State's (NYS) minority and women business development and assistance programs have to a large extent been conceived within and by a crisis-management scenario. In addition, the assistance provided reflects rather traditional thinking concerning the problems facing small and minority-owned businesses, applying, unfortunately, the same assumptions to both small and minority-owned businesses. Yet the needs of minority-owned business are not necessarily the same as those of small businesses as a group. As an example, start-up financing as mentioned earlier has traditionally been more available to smaller white businesses than to Black entrepreneurs. Thus, sources of venture capital although troublesome for all businesses, is nevertheless, more accessible for white firms since the most speculative risk capital -- the seed money to start a new venture and maintain it through its early stages of growth -- has been more adequately funded.

Similarly, incentives -- such as tax, financial or contract awards -- designed to promote research and development, while important to the development and growth of small enterprises -- a primary source of technological advances in this country today, are useless to minority-owned firms which, traditionally, are concentrated in the construction, service and retail industries. Moreover, many State initiatives restrict, or even prohibit, tax incentives or technical and/or financial assistance for companies engaged in those industries in which minority-businesses have historically been engaged. This dilemma of conflicting interests results in minority-owned business development programs that lack a sufficient constituency or small business programs that by their terms specifically exclude minority participation.

NEW YORK'S MINORITY AND WOMEN BUSINESS DEVELOPMENT AND ASSISTANCE PROGRAMS

NYS programs are designed to help minority and women-owned firms obtain State contracts, bonding, or financing. The varying minority business assistance programs are administered by different State agencies and public authorities; and although there is considerable inter-agency consultation and information exchange, each program operates within the strict confines of the particular agency or authority in which it is housed. Among the identifiable NYS entities assisting Black-owned firms are the Job Development Authority (JDA), the Governor's Office of Contract Compliance and Minority and Women-Owned Business Enterprise, the

Urban Development Corporation (UDC), the Dormitory Authority, and the Department of Commerce's Minority and Women-Owned Business Division.

The Job Development Authority (JDA)

By lending money to New York-based firms who wish to build new facilities, companies not presently in New York but planning to locate here, and existing New York enterprises who desire to expand their operations, JDA functions, in effect, as the State's economic development bank. JDA raises its money through the sale of bonds, guaranteed by New York State, to individual and institutional investors. In addition to providing direct loans and loan guarantees to eligible Black-owned firms, the JDA administers the Bonding Assistance Experimental Program (BAX).

The BAX Program and Other State Bonding Assistance Initiatives

The BAX Program, administered by the Job Development Authority (JDA), was first established in 1983 to provide bonding assistance to minority and women-owned, or small businesses receiving State contracts from the Office of General Services. It was later expanded to other agency and authority contracts, then, further expanded to include cities, counties, and villages. Contractors cannot bid on a job without a bond, and minority firms typically have difficulty in securing surety bonds. Therefore, the State has decided to offer bonding assistance in order to increase the number of contracts awarded to minority, women or small contractors.

JDA defines a minority enterprise as one in which 51 percent of the assets are owned and controlled by minority group members -- citizens or permanent resident aliens who are Black, Hispanic, Asian or Native American -- a women-owned enterprise as one in which 51 percent is owned and controlled by women, and a small business as a company with fewer than 100 employees or average annual sales of less than $10 million over the last three years.

Many BAX applicants are subcontractors who had formerly been under the umbrella of a prime contractor's bonds. Other applicants are subcontractors who have technical expertise but no bonding history and are trying to become prime contractors. The BAX program helps contractors bond contracts up to $500,000, and upon application, provides a limited amount of working capital.

The key feature of the BAX program is the establishment of a set-aside/escrow fund, which is made available to the surety company. The amount of the set-aside/escrow is 15 percent of the face value of the bond. Counted as an addition to the asset base of the contractor, it provides the additional support usually needed to induce the surety to issue the bond. If the contractor defaults on the job, the 15 percent BAX money is the first source of funds used to repay the incomplete part of the contract. In addition to the establishment of the escrow account in the event of default, JDA is authorized, upon recommendation of the surety in its monitoring capacity, to release funds that can be used by the contractor to finance the completion of the contract, thereby preventing a default.

Under an additional provision of the BAX program, funds are available to restore working capital to a contractor who has successfully completed work under a contract but whose liquidity has been adversely affected by delayed payments.

The Office of General Services waives the bonding requirements on projects under $20,000. Although available to all contractors, this stipulation particularly benefits small, minority and women-owned firms who have difficulty obtaining bonding. The Port Authority will also waive bonding requirements for minority and women-owned businesses in certain circumstances. As a public benefit corporation, it has more freedom in this area and purports to administer a relatively liberal bonding policy with respect to such firms. The Battery Park City Authority provides hands on accounting and other technical assistance to minority and women-owned businesses in their attempts to secure surety bonds.

The Office of Contract Compliance and Minority and Women- Owned Enterprise

In 1983, Governor Cuomo's Executive Order No. 21 established the Office of Contract Compliance and Minority and Women-Owned Enterprise herein referred to as "the Office" or the "OCC". With respect to Black enterprise development in the state, Executive Order No. 21 is charged with, among other things, "increasing opportunities for minority group members and women and minority and women entrepreneurs to participate in state construction and procurement programs...." It explicitly states that "The Office shall... assist them [minority and women-owned firms] in obtaining a fair share of contracts for procurement of goods and services awarded by the State..." As mandated by Executive Order No. 21, the Office's responsibility is to increase the amount of business that Black firms conduct with the State government.

Since the OCC began its operations in February 1984, it has acted as an advocate for minority business development in the State. Over the past three years, the Office has supported and strengthened existing programs throughout the State government apparatus, and has developed new initiatives which have ultimately been housed in other State agencies and authorities. For example, the OCC has conducted seminars for the staff of various State agencies informing them of their "responsibilities" under Executive Order 21, and six of the public authorities have adopted the mandate of the Executive Order at the strong recommendation of the Office. With respect to the development of new program initiatives, two of the most notable are the New York State Minority & Women-Owned Business Enterprise Certification Program and the Minority and Women-Owned Business Revolving Loan Fund (MRLF). The Certification program, designed to identify and verify minority and women-owned and controlled firms, pulled together previously existing verification processes found in the various State agencies and authorities, and now allows the State to employ a uniform certification system.

The OCC also provides a number of technical assistance services to minority and women entrepreneurs across the State. In cooperation with the State Education Department, the OCC developed a pilot Bond Readiness Program designed to provide minority and women entrepreneurs with the information necessary to prepare an acceptable bonding package for a surety company. The sixteen-class course offered technical assistance to both first-time bond seekers and those interested in augmenting their bonding capacity. The course was offered for the first time in the spring of 1986. The Office would like to see the course offered annually. Similarly, a Construction Management course was also developed and offered by the OCC last year to assist minority and women contractors in their efforts to bid competitively and successfully complete work on State-funded construction projects. Both courses were well-attended and received. The OCC conducts seminars and gives presentations on a variety of business services topics to minority and women trade associations across the state. It works closely with Black and Hispanic elected officials as well as other interested Senators and Assembly members on issues directly or indirectly related to minority business development, assistance and advocacy.

The Urban Development Corporation

The Urban Development Corporation (UDC), the NYS public authority primarily responsible for the monitoring and implementation of large-scale development projects in cities across the State, currently administers three programs which provide assistance to minority and women-owned firms. UDC's Affirmative Action Office is responsible for monitoring and developing minority participation in all UDC projects. In doing so, the office pays close attention to both the proportion of minority employment within white-owned firms and the number of minority owned firms involved in all UDC development projects. UDC is a major certifying agency under the Minority and Women-Owned Business Certification Program. At UDC the Certification program is used for outreach to increase the pool of available, eligible and appropriate minority firms. Minority and women-owned firms that are not registered with the Certification Program are not excluded from UDC projects. Nor does registration and certification guarantee that the firm will be a sub-contractor on a UDC project.

High Risk Targeted Job Investment Program

UDC's High Risk Targeted Job Investment Program is designed to promote economic development in distressed areas by assisting small companies and minority businesses in need of investment capital. The distressed areas are designated on the basis of a higher than statewide average of unemployment, poverty and persons receiving public assistance. Projects are in all areas -- construction, expansion or renovation of facilities intended for manufacturing, warehousing, research, commercial or other industrial or office use. The Minority Revolving Loan Fund was originally capitalized in 1986 with $3.5 million dollars of UDC's 1986-87 High Risk Targeted Investment Appropriation. UDC has also attempted to leverage High Risk Fund monies to increase the BAX program, the bonding program administered by JDA maximum contract size from 0.5 million to 1.0 million.

The Minority Revolving Loan Fund

The Minority Revolving Loan Fund (MRLF) administered by the UDC, was established in 1986 to make expansion capital more accessible to minority and women-owned firms. Since most minority and women-owned firms are small, the State conceived MRLF as a small business loan program. It is designed to supplement UDC's other loan programs that exclude the small business sector, which the State regards as a prime job generator. Thus, MRLF was created to provide both assistance to the minority and women-owned business community and to increase the number of jobs statewide. In its first year MRLF received 80 applications. Twelve loans totaling $1.7 million, ranging in size from $50,000 to $500,000 were approved. In April, 1987 the State appropriated an additional $3.5 million to be added to the MRLF, which had nearly $2 million in surplus, and suggested that UDC re-evaluate the program.

The new MRLF guidelines specify eligibility, terms, and procedures for loan granting. Loans are divided into five categories and range in amount from $20,000 to $500,000.

To be eligible for a MRLF loan, a firm must be organized on a for-profit basis, formally authorized to conduct business in the State, have a fixed location, and be certified as a minority or women-owned business enterprise by New York State. Generally, borrowers must have 10 percent of their total capitalization, as adjusted to reflect the proposed loan, represented by equity and must independently have secured a bank loan. In most cases the MRLF will not fund more than 60 percent of a project. Loan terms vary depending on type-machinery and equipment loans range from 3 to 7 years, construction loans are no longer than 2 years, and real estate loans match bank participation terms but will not exceed fifteen years. UDC, to the maximum extent possible, grants MRLF loans in conjunction with private source financing; however, applicants must show that they were unable to obtain alternative financing for the State's portion of the project. MRLF may also grant entrepreneurial assistance loans to provide venture capital for start-up firms. However UDC is limited to an allocation of $500,000 per year for this purpose and no more than $50,000 may be granted for any single project.

The financial condition of the firm and the number of jobs created are factors considered in deciding whether or not to grant the loan. The location of the project and its ability to impact favorably upon economically distressed communities also affects loan granting decisions. Thus, as designed, the MRLF maintains several goals -- small loans leveraging private sources, increasing jobs Statewide, and impacting distressed communities. However, loans are only granted in cases where firms can demonstrate financial solvency, an inability to obtain funding from other sources, bank participation, and a 10 percent equity base contributed by the owner. Applications for loans in excess of $50,000 are reviewed by UDC directors; loans under $50,000 may be approved by UDC's Chairman and Chief Executive Officer based on staff recommendations.

The Buffalo Minority Enterprise Center

The Buffalo Minority Enterprise (BMEC) is a branch of the Western New York Economic Development Corporation, which is associated with the Urban Development Corporation. BMEC received a $500,000 appropriation from UDC to provide loans and technical assistance to minority and women-owned firms. The BMEC approach to development involves combining different kinds of assistance at the same location. BMEC conducts flexible programs whose primary goal is to increase and retain jobs in the State. In the last sixteen months, BMEC closed four loans, totaling $217,000, and committed to a total of 11, an additional $250,000. Loans are available to any type of minority or women-owned business except retail firms and applicants are considered based on conventional banking practices.

The New York State Dormitory Authority

The New York State Dormitory Authority (DA), a public benefit corporation established by legislative act to; finance and construct dormitories for the State University of New York, the City University of New York, and some not-for-profit private colleges in the State; and, assist minority and women-owned firms through its Affirmative Action program, its Department of Urban Affairs, and a legislated minority business set-aside program. The DA's Affirmative Action Program, administered by its

Department of Urban Affairs, provides business opportunities to minority and women-owned firms, and assures equal employment opportunities on DA financed projects. The program consists of four major parts: construction contracting; commodity purchases; personal services; and employment. The major thrusts of the DA's Affirmative Action program are contracting with minority subcontractors and employment of minorities on construction projects.

In addition, the DA administers a special "set-aside" program. Four campuses have been set aside so that all firms hired by the general contractor must be minority/women-owned businesses. Both the general and the subcontractors must also meet established EEO goals. If minority/women-owned businesses cannot be found, small businesses, as defined by State law, are the next in line for project participation. The set-aside program is sanctioned by New York State Laws 16-25 and 16-99, and was vigorously lobbied for by the Black and Puerto Rican Legislative Caucus. The DA is the only public authority in the State which must adhere to state set-aside legislation. The four colleges which are included in the program are York College, Hostos College, Medgar Evers College, and the Bronx campuses of the City University of New York. The DA's commitment to assisting minority firms is also exhibited by its willingness to waive normal bonding requirements in order to help minority subcontractors prepare for a State contract. In addition, the bond and financial packaging is completed by a Black accounting firm to which the DA also refers minority firms for technical assistance.

The Department of Economic Development's Minority and Women's Business Division

The Minority and Women's Business Division of the New York State Department of Economic Development[2] was created in 1981 by legislative act. Before 1981 the Small Business Division of the Department of Economic Development was responsible for minority business development. Pressure from critics asserting that the Small Business Division was doing an inadequate job serving the particular needs of minority firms fostered the creation of the Minority Business Division. With Governor Mario Cuomo's Executive Order 21 in 1983 came a broadening of the function of the Division and the inclusion of women into its client group.

The Division is headed by a Deputy and an Assistant Deputy Commissioner, and is divided into two bureaus. According to literature published by the Division, the Business Planning and Development Bureau produces information on the services available for minority and women-owned businesses throughout the State, a seminar and workshop series, and a description of the State's economy. It is also the intake arm in the State's certification process. The Capital and Economic Development Bureau is said to provide "hands-on" technical assistance to low-risk firms. High-risk firms are referred to other State, Federal, or private entities.

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[2] Pursuant to the Omnibus Economic Development Act of 1987 (S.6495/A.8591) the Department of Commerce was renamed the Department of Economic Development. (See recent legislative initiatives.)

Under the mandate of Executive Order 21, the Department of Economic Development serves as the State agency which compiles the Directory of Certified Minority or Women-Owned firms and is the intake agency in the certification process. The five primary certifying agencies throughout the State are: the Office of General Services, the Urban Development Corporation, the Department of Transportation, the Niagara Frontier Transit Authority, and the Department of Environmental Conservation.

RECENT LEGISLATIVE INITIATIVES

The New York State Economic Development Zones Act of 1986

In July 1986 the New York State Assembly passed the New York State Economic Development Zones Act, which is designed to provide certain incentives to the business community to locate and expand their operations in areas that have suffered severe economic consequences that are disproportionate to the rest of the State. In so doing, the Act establishes a comprehensive plan whereby distressed communities can apply for designation as an economic development zone. A total of nineteen zones are authorized to be designated Statewide within a three-year period. The Act provides specific criteria for zone designation which would evidence chronic, pervasive poverty and general distress such as a decline in population, substantial vacant or abandoned property, and continued increase in unemployment and relative decline in per capita income.

The Act creates a number of incentives for businesses to locate in the zones which are principally tax-oriented, such as corporate franchise tax credits and real property tax abatements. As an example, the Act provides an investment tax credit to corporate and individual taxpayers equal to 10 percent of the cost or other basis of tangible personal property which is located in a zone, provided the construction of such property occurred or was commenced after the designation, but before the termination of the zone. In addition, wage credits against personal income taxes are also provided to employers for wages paid to employees who are zone residents, JTPA eligible or public assistance recipients.

The Act also provides a comprehensive mechanism for both zone designation and administration that places a significant amount of emphasis on development of both plans and administrative boards with the participation and continued involvement by zone residents. In addition, the Act creates Economic Development Zone Capital Corporations ("Zone Capital Corporations") for the purpose of raising funds to be used in making investments in and loans to qualified business firms to encourage the establishment or expansion of businesses within such areas. In connection with the establishment of such Zone Capital Corporations, the Act requires each Zone Capital Corporation to be managed by a board of directors, some of whom must be either residents of the area or individuals who maintain a regular place of business within the area. The Act requires that at least 20 percent of all of the loans and investments in any calendar year must be made to locally-owned business enterprises although no such similar minimum investments are required for minority and women-owned businesses. No Zone Capital Corporation may commence operations unless and until it has sold $250,000 in capital stock to private investors. However, the total amount of capital stock that may be issued by any such Corporation must not exceed $10 million. A tax credit equal to 25% of the consideration paid for the original issue of stock of a Zone Capital Corporation is provided with certain limitations to any purchaser of such stock.

No money is allocated by the State for the development of economic development zones other than limited funds for administering the Act. The Act is tax-incentive driven and, thus relies solely on the support of the business community and the ability of the municipalities in which the Zone are located to create additional incentives and infrastructure improvements. However, little consideration was given to providing technical assistance to proposed applicants in developing zone plans, nor is any money available by the State to create infrastructure improvements, housing, or other components necessary for a successful plan. (See the Committee's comments on the proposed legislation contained in Appendix A and letter to Anthony Gaetano dated November 3, 1983 contained in Appendix B.)

The Omnibus Economic Development Act of 1987

The 1987 Act amends the budget, the commerce law, the public authority's law, the education law and the New York State Urban Development Corporation Act to overhaul and streamline New York State's economic development services and programs and to appropriate $160 million to fund new programs. The Act renames the Department of Commerce as the Department of Economic Development and directs that agency to coordinate all of the economic development programs throughout the State and to develop strategic and program plans for financial assistance in conjunction with State authorities and agencies.

Although the 1987 Act creates several programs such as the Industrial Effectiveness Project, the Small and Medium-Sized Business Assistance Project and a Strategic Resurgence Fund to provide financial assistance to increase productivity and industrial effectiveness, two other programs created by the Act are particularly noteworthy. Minority and Women-Owned Business Enterprise Development Centers are designed to provide community-based management and technical assistance to minority and women entrepreneurs through not-for-profit corporations. Entrepreneurship Support Centers are designed to provide classroom training to dislocated workers, minorities and women in all aspects of business development and management through not-for-profit organizations and vocation education agencies. A total of $600,000 for the two programs was appropriated by the State legislature for fiscal year 1987-88. Although there is no statutory limit on the size of individual awards for Enterprise Development Centers, individual awards for Entrepreneurship Support Centers are limited to $50,000.

In addition, the 1987 Act established a Revolving Loan Trust Fund to provide financial assistance to businesses employing 100 or less persons. The State legislature appropriated $2,100,000 to be allocated as follows: 50 percent of the funds must be equally divided among the regions and 50 percent of the funds must be divided according to a formula weighted to favor areas of economic distress. The Urban Development Corporation is to designate regional corporations, which must be not-for-profit or public benefit corporations, to administer each revolving loan fund. Funds may be used for working capital loans and to guarantee the repayment of such loans provided by a bank. Priority is to be given to projects which increase jobs; are in distressed areas; are of minority and women business enterprises or dislocated workers; or are start-up businesses denied credit elsewhere.

III. PROGRAMMATIC AND CONCEPTUAL SHORTCOMINGS

This section of the paper summarizes observations and conclusions drawn by the Subcommittee on the programmatic and conceptual shortcomings of New York State economic programs and policies.

Observation# 1. No clear rationale as to why New York State is involved in minority business development can be gleaned from the existing programs. Nor is the rationale often articulated by the state's promotional materials reflected in the design or implementation of existing programs. However, investigation of the events which precede the design of specific programs suggest that minority business development in New York State is often rooted in political expediency.

Many of the existing minority business assistance programs are the direct result of political compromises and legislative attempts to appease previously dissatisfied constituent groups. While political compromises and the satisfaction of constituent groups are not inherently undesirable outcomes, of primary concern, however, is whether these political realities result in programs with a general strategy or policy thrust. It is our contention that such has not been and continues not to be the case in New York State. Only when pressure from minority business development advocates is sufficiently applied to the policy-making apparatus do programs seem to emerge. That need not imply that policymakers are steadfastly unsympathetic to the concerns of minority entrepreneurs and their advocates. It does suggest however, that both minority business advocates and policy makers in Albany need to think a lot more about how such programs fit into the State's broader economic development and social policy agendas, assuming the State has developed those agendas fully. Numerous business assistance programs cannot simply be aggregated and then construed as minority business development policy.

Observation # 2. The only financing program made exclusively available to minority entrepreneurs, the Minority Revolving Loan Fund, reflects traditional thinking regarding the needs of minority businesses. Conceptually, the revolving loan fund is designed to provide low-cost loans to minority firms that have not been able to secure financing in the private market. Implicit in the design and administration of the fund is the notion that minority firms and their financing needs are relatively homogeneous with those of their white counterparts. Debt-financing, however, is not appropriate for most minority entrepreneurs.

Because firms develop in stages, some types of financing are more appropriate than others over the course of a small firm's life cycle. As an example, a report of the SBA Task Force on Venture and Equity Capital for Small Business, January 1977, identified five stages of a company's life cycle, in addition to its initial research and development stage. The report noted that in the research and developmental and start-up stages of the life cycle, the average size of "equity financings" range from as low as $100,000 to as high as $750,000. Corporate borrowing, without the personal guarantees of its founders, is not identified as a traditional source of capital until the second stage in the life cycle, after the initial R&D start-up period, at which point a company has revenues of $2 to $10 million and an equity base of $1.5 million. Equity is often referred to as "patient money" because it does not impose relatively immediate demands of repayment. Personal and individual investments are the principal source of financings for young, infancy-stage firms. Yet as we have seen, an array of market failures such as inequitable discrimination on the part of the private investment and commercial banking sector, marginal accumulations of assets and, the contraction of small investment firms in favor of larger firms, to name but a few, have imposed significant burdens on the ability of minority owned businesses to access equity capital.

Debt-financing is inappropriate for firms in the infancy stages of growth because young firms do not generate steady flows of income from which debt payments can be drawn. In the worst case, providing debt financing to a new firm may be damaging to the firm's existençe because the debt-to-equity ratio is inflated at a stage in the firm's development which does not allow the firm to easily handle increasing amounts of debt. Unfortunately, many firms starving for capital obtain debt-financing irrespective of its appropriateness. The Minority Revolving Loan Fund may be inadvertently contributing to that practice.

The Minority Revolving Loan Fund is designed to provide capital to established firms with an existing banking relationship for a portion of the funds required. The debt-financing made available to minority firms through the MRLF is most appropriate for firms able to meet the relatively brief terms (with the exception of real estate) of the loans for machinery and equipment, working capital, and construction and renovation. Firms receiving MRLF capital must also meet collateral requirements analogous to those required of many private sector banks.

Collateral or other forms of security are also difficult, if not impossible, to identify because, from the lender's point of view, neither the new firm nor the entrepreneur has an acceptable track record or sufficient personal assets to secure the loan. The MRLF offers little assistance to start-ups or infancy-stage ventures. Moreover, factors affecting credit decisions which the MRLF must evaluate are not necessarily the same factors that determine an investment decision. Yet, the same staff that is asked to make limited investment decisions evaluates the merits and risks as a credit decision. Thus, New York State provides no financing program that would be appropriate for new minority firms.

To existing firms in need of funds to remedy cash-flow problems or other types of "gap" financing, the time between application for and approval of the loan is critical. To the extent that the MRLF approval process is burdened by the organizational bureacracy at UDC, a minority firm's opportunity costs associated with borrowing may be lower at a private bank even though the cost of the money is higher, assuming the private-sector approval process, if available, is briefer.

Observation #3. The overwhelming majority of New York State's assistance to Black entrepreneurs is either explicitly or implicitly geared to the construction industry - very often at the expense of attention to Black firms engaged in other sectors of economic activity.

New York State's most identifiable and immediate business interactions with Black firms occur in the construction industry. Because the State's public authorities and benefit corporations are responsible for a significant proportion of the development activity across the State, their respective affirmative action initiatives often result in select Black firms participating in various development projects. Clearly such a practice is positive, and the authorities, in particular, often times aggressively pursue minority firms for participation in their projects. In addition to UDC and the Dormitory Authority, other notable agencies include the Housing Finance Agency, the Battery Park City Authority, the Convention Center Authority, and the Niagara Frontier Transit Authority. State agencies which also actively involve minority sub-contractors include the Office of General Services, the Department of Transportation and the Department of Environmental Conservation. Therefore, given the importance of the construction industry, the Minority and Women-Owned Business Enterprise Certification program is an important initiative to the extent that it protects the State from those individuals in the industry who would engage in fraudulent business practices.[3] In addition, JDA's BAX program and the OCC's Bond Readiness and Construction Management courses reflect the State's sensitivity to the needs of minority contractors.

However, by contrast, the State has done relatively little to expand the proportion of goods and services it purchases from minority firms, or broaden the network of minority firms on which it has traditionally relied. Although the OCC has compiled data which show a modest increase, at best, in the proportion of goods and services purchased from minority firms from 1983-1984 to 1984-1985, more recent data is not yet available, it is not likely that such increases are due to the careful design and implementation of programs which assist minority firms in procuring service-oriented contracts. Such programs are non-existent in New York.

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[3] Notwithstanding these positive initiatives, each of the agencies have been attacked, on numerous occasions, by complaints of lower management insensitivity, lengthy delays in payment for work performed and biases in the selection process. And because minority-owned contractors traditionally have a disproportionate amount of their overall business in State-supported projects, substantial delays in payment often result in limited working capital reserves or even defaults on institutional borrowings if such loans have been collateralized by the expected receivables.

Observation #4. The finance officers within State agencies and departments, who are primarily responsible for the purchase of goods and services for the agency, possess little knowledge and seek even less information pertaining to minority firms which may produce or distribute products or services for which the State government has an easily identifiable demand.

Perhaps even more disconcerting is the fact that many of the Affirmative Action Officers within State government departments focus solely on the personnel/employment aspect of the agency and, in fact, one senior administrator of the Office of General Services identified this problem as a major programmatic shortcoming. Consequently, affirmative action officers do not have the resources, nor are they inclined, to act as advocates for minority firms capable of meeting some proportion of the agency's demand. It was also suggested that there is virtually no interaction between the Affirmative Action and Finance Offices within any given State department or agency. Their respective functions are often viewed as distinct and non-related. Even in the public authorities, where there is deliberate interfacing of affirmative action employment-related goals with minority business participation, the emphasis is on minority businesses in the construction industry distinct from minority producers, wholesalers, and/or service-providers.

Observation #5. The de-centralized administration of the assistance to which Black firms have access makes it especially difficult for less established firms to take full advantage of the varying program offerings. Consequently, the least disadvantaged minority firms participate more frequently, and ultimately benefit most from the programs as they are currently administered.

Because assistance has, historically, been provided through a variety of relatively autonomous programs, very often a firm's needs cannot be satisfied by any one program. Therefore, firms seek a "package" comprised of assistance from various programs and agencies across the State. In order to expedite the desired combining of available aid, it is important that the firm's varying applications be appropriately filed and in order. Those firms most capable of moving smoothly through more than one application process are firms which have prior experience with government bureaucracies and red tape. Such firms are also relatively stable. The most needy firms are those with far less familiarity with procedures associated with applying for aid from State governments. Many of them require assistance prior to the application phase in order to ensure that their applications are considered seriously. Moreover, most financial grants or loan programs require significant legal expertise which is costly and, often, not readily available to the entrepreneur. The assistance programs described above have not been conceived to accommodate the needs of the most disadvantaged firms.

While recent legislation renames the Department of Commerce as the Department of Economic Development and directs the Agency to coordinate economic development programs and develop annual strategic and program plans for financial assistance programs in conjunction with State authorities and agencies, it is unclear to what extent these programs will be integrated into a comprehensive plan. Nor can an orderly transition be forecasted, particularly in view of conflicting policies in planning and methodology. As an example, it is unclear whether or not the Minority Revolving Loan Fund has been subsumed by the Regional Revolving Loan Trust Fund created by the 1987 Act or is intended merely to provide an additional source of financing. Although the Commissioner of Economic Development is empowered to guide the development of operating procedures and set forth the manner in which its programs are coordinated with other economic development programs already "housed" in other State agencies, it can, nevertheless, be expected that "one-stop shopping" for entrepreneurial assistance will not be forthcoming without imposing an executive mandate to integrate such programs.

IV. RECOMMENDATIONS

1. New York State must develop a well-articulated rationale for its involvement in minority business development

Without such a rationale, programs are likely to continue to be short-sighted, potentially conflicting and yield less than impressive results. The objective, however, should not be to simply select a rationale from a random list that mirrors those for encouraging all small businesses as a single group. For example, minority business development programs should be implemented because they are "consistent with the State's overall economic development strategy" and the overall strategy should be well-articulated and reflect input and continued development from minority entrepreneurs and their advocates. Another rationale suggests that minority business development programs assist economically disadvantaged workers in the movement from wage work, or public assistance, to self-sufficiency by means of self-employment. Should such a rationale be invoked, those programs should be especially sensitive to assisting new firms and start-ups with little regard for the number of job opportunities it may create. Welfare workers, unemployed workers and dislocated workers will all be recipients for assistance and awards if such is the rationale to implement new programs. Minority business development programs that are justified by their capacity to "stabilize the local economy of distressed communities" must be implemented in tandem with other State initiatives such as infrastructure improvements, increased day care and, of course, increased development of low-and middle-income housing if such programs are to be judged for effectiveness. Only then can such programs be adequately tested for determining their "multiplier" effect.

Clearly, a comprehensive rationale might include all of these aspects. But more importantly, each program must be closely associated with one of the specific rationales, the aggregate of which constitutes a comprehensive justification for State involvement in minority business development.

2. A specific proportion of the goods and services that New York State buys should be set aside to be purchased from minority vendors.

Within State agencies and departments finance officers should be required to compile data and information indicating the products each agency typically purchases. With the help of agency affirmative action officers and the Directory of Certified Minority and Women-Owned Business Enterprises, minority vendors capable of meeting the agency demand can easily be identified. More aggressive recruitment of minority purchasing agents within State agencies would also enhance State purchases from minority vendors. Service contracts, like construction contracts, should be advertised to the public.

3. Serious thought should be given to the establishment of a centralized monitoring system with respect to procurement practices which will enhance each authority's affirmative action efforts and contribute to the Department of Economic Development's central information gathering capacity.

In this regard, New York State should develop a uniform system to penalize non-compliance for both construction and purchase contracts. This system might be modeled after the Battery Park City and UDC liquidated damage clauses which impose a cash penalty on firms that do not comply with contracted affirmative action obligations, even if detected 10 years after any project begin or after any goods and services are procured.

4. New York should make a concerted effort to increase its participation on an equity basis in minority and women-owned businesses and initiate several State initiatives to encourage participation by the private sector.

If business assistance programs are to significantly assist Black firms in their varying stages of development, programs should be designed to reflect that diversity. More specifically, equity financing and seed capital programs should be designed to meet the needs of new and infancy stage minority firms. Criteria for investment decisions should not reflect or duplicate those applied to making credit decisions. Moreover, the rationale for such programs should not hinge merely on the potential for job employment opportunities; rather, they should be encouraged for both the positive and multiplier effect in distressed communities as well as encouragement of participation by Blacks in the American dream.

The Committee recognizes, however, that the role of public policy should not be to correct all of the problems faced by minority businesses and should, therefore, not endeavor to provide an otherwise totally risk-free environment. However, the Government should intercede when market forces have repeatedly failed to permit inclusion of minorities in the capital formation process. This can be done by creating a nurturing atmosphere for business development by supporting or subsidizing the equity participation of traditional banking sources. This is particularly true in the State of New York where the concentration of financial institutions and services dominate the State's economy. Various State incentives for encouraging private participation should be explored as quickly as possible. Such incentives that should be considered are as follows:

a. The creation of venture capital funds by the State which would leverage its dollars on a dollar-for-dollar basis with those invested by private firms.

b. The use of State guarantees for a specified percentage of a return on an investment by private venture capital and investment banking firms establishing or underwriting pools of equity capital for minority firms.

c. The employment of State tax credits for private firms to create such pools of capital for minority-owned firms.

d. The development of new financial instruments for private investors, which would provide, on the State level, tax-free income for a return on monies invested by private firms to minority-owned firms along with individual or corporate tax credits for those funds invested. A similar tax credit is already incorporated into the New York State Economic Development Zone Act of 1986 for monies invested in Zone Capital Corporations, created by that Act. Thus, this concept can be expanded to equity investments in minority-owned firms wherever such firms are located in the State.

e. The employment of tax and real estate incentives and the contribution by the State of State-owned property for the development of incubator centers without the requirement that such centers be established by not-for-profit corporations. While the Committee recognizes that the 1987 Act authorizes the Department of Economic Development to provide grants to not-for-profit organizations for Enterprise Development (incubator) centers, the development of such centers is limited merely to not-for-profit corporations, many of which may not themselves have the needed resources or skills to develop effective centers. Moreover, incubator centers should not be viewed merely as training centers, but, rather, should be viewed as another method of providing equity capital by contributing rental facilities at rates significantly below market, technical assistance and support services, such as secretarial, payroll and bookkeeping, word processing, etc.. Such centers should be developed, however, with the sponsor of a center, which may, of course be the State, having an equity interest in each of the businesses contained in the center in return for the services and space provided. Only with the development of a profit motive can such centers ever, in fact, be expected to develop and prosper.

5. The State should encourage minority venture capital programs in the private sector by stating that the creation, establishment and participation of such programs shall be a criterion in the evaluation and selection of banks and investment banking firms which continually compete for State dollars.

The use of such criteria is not a foreign concept to most agency and other public authorities. As an example, most public agencies and authorities use criteria such as employment characteristics in selecting investment firms and bond or agency counsel which are competing for municipal business. The same concept should be considered for evaluating investment firms which have created venture capital funds for New York State minority businesses.

There should be a review of all financial and technical assistance programs and business tax incentives programs to eliminate various prohibitions that effectively preclude participation by minority businesses.

As an example, many real estate, sales and other tax incentives preclude participation by firms engaged in the retail or service industries. As an example, the recently enacted Economic Development Zone Act provided many tax incentives but only to those companies engaged in "manufacturing." In addition, sales tax credits were available only to those companies not engaged in the retail sector. An even more glaring flaw may be gleaned from the prohibition contained in the investment tax credit section of the Economic Development Zones Act which disallows a credit to a taxpayer who leases property. Accordingly, and as more fully described in our letter dated June 23, 1986 expressing our comments to the Governor, such credits encourage development of non-minority firms in distressed communities and inadvertently discriminate against minority firms where participation by local minority entrepreneurs would, naturally, be most likely encouraged. And, in the case of the "leased property" prohibition for the investment tax credit, there is no State interest in, or rationale for denying such a credit to developers of office buildings and industrial parks which may, very likely, be leased to small or start-up ventures. Conversely, such development should be encouraged.

7. Small business employers who are encouraged to locate in certain distressed communities should be rewarded for entering into "partnership" with area employees by the establishment and implementation of certain tax incentives for substantial employee stock ownership plans.

Because such plans have traditionally provided a valuable incentive for increased productivity, while at the same time providing employees an equity share in such increased productivity, the appropriateness of tax credits or some other similar incentive to employers that implement employee stock ownership plans for their employees (which must, necessarily, provide ownership levels above minimum levels) should be explored. Likewise, dividends paid or accrued on stock acquired by employees pursuant to such plans should not be includable in such employee/taxpayer's calculation of income for state personal income tax purposes.

8. **Continued support for UDC's attempt to increase the bonding assistance contract ceiling from $.5 million to $500,000 is essential as an increasing number of minority and women contractors are to participate in and benefit from the State's economic development.**

9. **We continue to recommend that the State explore opportunities to encourage private investment in the recently created Economic Development Zone Capital Corporations established by the New York State Economic Development Zones Act.**

In a letter to Anthony Gaetano, vice president, Urban Development Corporation, dated November 3, 1986 (appendix B) the Committee expressed its concern with respect to the creation of a mechanism for funding the Zone Capital Corporations established pursuant to the Economic Development Zones Act. Not only does the Committee believe that the State should be a "risk-taker" by investing in economic development zones and the businesses operating therein, but the State should encourage such participation by our major financial institutions. Accordingly, serious consideration should be given to a pool of funds which, in turn, invests in Zone Capital Corporations. Incentives for such participation by a consortium of financial institutions can include those enumerated under Recommendation No. 4 of this report. The State should, nevertheless, be the initiator of such a program since, without its involvement, no such funds are likely to develop. The role of the public sector is not merely to create the instrument, but to invest in it and instruct others to do so as well.

10. **WE REITERATE OUR CONCERNS REGARDING INCREASED STATE INITIATIVES IN THE DEVELOPMENT OF ECONOMIC DEVELOPMENT ZONES WHICH ARE ESSENTIAL TO A TOTAL REVITALIZATION OF DISTRESSED COMMUNITIES**.

In our letter of recommendations to the Governor, the Committee expressed its view that the Economic Development Zones Act should be the basis for community master planning so that support services such as health and day care services, infrastructure improvements and adequate housing become essential components of long-term community revitalization. We continue to support the view that the State should be in partnership with both private business and local government. Without meaningful participation by the State to create an environment for private business growth, no significant improvements can be expected. Such state initiatives that should be considered are as follows:

a. funding assistance by the appropriate state agencies for self-help programs initiated by zone residents to make improvements such as parks, playgrounds and other recreational facilities.

b. tax credits or similar incentives to employers who, either alone or in cooperation with other zone employers, implement, support or facilitate, the location of quality child care programs for their employees. Access to adequate child care will ensure greater opportunities for employment by those who are currently not in the labor force.

c. housing development incentives should be viewed as an essential component of economic development zones. We have recommended that unused municipal and State properties be developed by private real estate developers, thereby decreasing the costs of both land and construction. A reduction in costs may be passed through to the purchasers of such improved residential units and recaptured by the State upon resale by means of providing participating equity mortgages. Alternative programs to encourage private development of low and middle income housing should actively be explored.

d. create training and technical assistance programs in the financial services, information processing and telecommunications industries or other professional service-oriented industries that have become major components of New York's economy. The contraction of the large manufacturing industries in New York State where Blacks were concentrated in the traditional blue-collar work force, has resulted in severe unemployment levels for unskilled and semi-skilled workers who have not been absorbed in those service industries that have replaced manufacturing. While incentives may be created to encourage relocation of manufacturers into economic development zones, undue reliance on their relocation to develop job opportunities is short sighted and unrealistic.

CONCLUSION

While the Committee has focused its attention on both the needs and the State's involvement in the development of Black enterprises, there is an underlying misconception which suggests that Black business development is synonymous with Black economic development policy. Among the consequences associated with such a view are misconceived Black business development programs, exaggerated speculations as to what such programs imply for the Black community, and a narrow vision of Black economic development policy. For Black New York State residents in particular, the primary function of a State economic development policy is to maximize the benefits extracted from the private economy while minimizing the sacrifices associated with inevitable structural and cyclical economic adjustments. Such a charge implies that State government must adopt an aggressive interventionist posture in order to take full advantage of economic opportunities which present themselves. State interventions should be made on behalf of its residents and industry, alike, recognizing that the "role" of the public sector is neither to "get out of the way" nor to merely respond to the market with bureaucratic programs. The objectives of such interventions should be investments in people, the State's infrastructure, and enterprises which yield increased returns that are distributed equitably.

Minority business development is clearly an important part of State economic development policy. Similarly, minority business development should be seen as one segment of Black economic development -- the latter being policies which protect Blacks from the adverse consequences associated with private sector policies and practices, while placing Blacks in a position to take full advantage of economic prosperity with special attention paid to the equitable distribution of returns. To assume, however, that minority business development is or should dominate minority economic development policy loses sight of the diverse economic policy agenda which is required to enhance the Black community's participation in the State's economic prosperity as a whole. The folly of only attempting to "fix" one spoke on a crooked wheel in the hope that it will, somehow, strengthen the others has been amply demonstrated in the past. Without support planning which encompasses not only Black entrepreneurship but also the development of housing, infrastructure improvements, health and day care needs, and cooperation with local governments, none of the initiatives, both in existence or proposed, can be expected to demonstrate long-term returns.

TABLE 1

NUMBER OF BLACK-OWNED BUSINESSES AS A PERCENTAGE OF ALL BUSINESS: 1972, 1977, and 1982

				Percentage Change		
	1972	1977	1982	1972-1977	1977-1982	1972-1982
Black-owned	187,602	231,203	339,239	23.2	46.7	80.8
All Firms	12,977,564	14,740,901	16,760,277	13.6	13.7	29.1

Source: U.S. Bureau of Census, 1982 Survey of Minority-Owned Business Enterprises--Black, MB82-1, and 1977 Survey of Minority-Owned Business Enterprises--Black MB77-1.

TABLE 2

BLACK-OWNED FIRMS WITH PAID EMPLOYEES: 1972, 1977, and 1982

	1972	1977	1982	1972-1977	1977-1982	1972-1982
Number of Firms	24,509	39,968	38,631	63.1	-3.3	57.6
Total Employees	147,184	164,177	165,765	11.5	1.0	12.6
Total Receipts in Billions of 1982 Dollars	$8.004	$10.190	$8.529	27.4	-16.3	6.6

Source: U.S. Bureau of Census, 1982 Survey of Minority-Owned Business Enterprises--Black, MB82-1 and 1977 Survey of Minority-Owned Business Enterprises--Black, MB77-1.

TABLE 3

BLACK-OWNED FIRMS IN NEW YORK STATE
1977 AND 1982

Black-Owned Firms	1977	1982	Percent Change 1977-1982
a) All	17,528	25,560	45.8
b) With Paid Employees	2,176	2,270	4.3
c) Firms with Paid Employees as % of all Firms	12.4	8.9	-28.2

Source: U.S. Bureau of Census, 1982 Survey of Minority-Owned Business Enterprise— Black. MB82—L.

TABLE 4

DISTRIBUTION OF BLACK-OWNED FIRMS BY SIZE OF WORKFORCE: 1972, 1977, and 1982

Size of Work-force	1972 Number of: Firms	1972 Number of: Employees	1977 Number of: Firms	1977 Number of: Employees	1982 Number of: Firms	1982 Number of: Employees
Under 5	16,654	36,315	32,581	47,225	31,639	44,854
5-9	4,782	30,924	4,556	28,985	4,264	27,259
10-19	1,984	25,827	1,771	23,231	1,611	21,159
20-49	852	25,371	717	21,229	759	22,660
50-99	163	10,619	230	15,540	222	14,912
100 or more	74	18,128	113	27,967	136	34,921
TOTAL	24,509	147,184	39,968	164,177	38,631	165,765

Source: U.S. Bureau of Census, 1982 Survey of Minority-Owned Business Enterprises--Black, MB82-1, and 1977 Survey of Minority-Owned Business Enterprises--Black, MB77-1.

APPENDIX A

June 23, 1986

Mr. Bernard Charles, Chairman
Governor's Advisory Committee For Black Affairs
c/o Carnegie Corporation of New York
437 Madison Avenue
New York, New York 10022

We are writing this letter in connection with the Governor's proposed bill to establish "Opportunity Zones" throughout the State of New York. The bill is designed to provide certain incentives to the business community to locate and expand their operations in areas that have suffered severe economic consequences that are disproportionate to the rest of the State. This letter and the proposals outlined herein, which have been summarized in part, express the views of the Subcommittee on Economic Development and Finance with the concurrence of the Subcommittee on Labor and Employment of the Governor's Advisory Committee for Black Affairs.

The Subcommittee applauds the Governor's efforts in proposing the Opportunity Zone concept as an aggressive effort to alleviate the problems facing chronically distressed areas of the State that are in dire need of revitalization. We believe that the proposed legislation is a good starting point to address some of the problems facing those communities with chronic high unemployment, diminished job opportunities, and spiraling rates of poverty. However, the State, along with local governments, must demonstrate their long-term commitment to the business community to create an environment for long-term continued business growth, not merely for the term of a tax credit or the duration of a zone. It is this commitment that will strengthen the bonds of cooperation and partnership between communities, State and local government, and the private sector. Moreover, in view of the most recent federal tax reform initiatives, it is this commitment from the State that must, no doubt, be the primary motivating factor in attracting private business development.

We would like to see this legislation go further to provide an opportunity to create a mechanism for comprehensive community master planning so that residents indigenous to such areas have an equity stake in the economic success of their community. Success, we believe, should be measured in terms that achieve not only job opportunities for the long-term unemployed and poor, but also in terms of the promotion of entreprenurial ventures by minority and women business enterprises which traditionally have been denied opportunities to share equitably in the American dream. We also believe that economic success should be measured in terms of private development of decent housing for low-and middle-income residents. These goals should not be viewed merely as incidental or as an inevitable by-product of developing new job opportunities. Rather they should be considered in tandem with those opportunities, like symmetrical spokes on the same wheel.

Such a master plan concept would help ensure the sustained economic growth and health of a community. It would also make New York State's legislation unique among zone proposals of other states. It is from this perspective that we respectfully submit our recommendations to the Governor's proposed legislation.

We believe that residents can make contributions to the planning and implementation of the opportunity zone concept that are not only essential to its success but that no other participating element can make. These contributions include, for example, interpreting the practical aspects of zone policy and administration in ways that residents can functionally understand; serving as a bridge between the residents and outside interests in order to erode or minimize any complex differences that may emerge; and providing the expertise in blending the standards and styles of both internal and external interests. To this end, we have formulated recommendations that require community involvement at every stage of planning: the initial planning stage through hearing procedures, at the developmental stage in cooperation with State representatives as well as throughout the administrative process. Because our recommendations reflect our belief that this legislation should provide the basis for comprehensive master planning, we have proposed extended time periods for designating and implementing zone programs. We have recommended that the Urban Development Corporation be mandated to provide technical, staffing and marketing assistance in formulating a complete zone plan prior to a final designation of zone. Moreover, we are also proposing that the legislation include a housing component that is designed to provide incentives for developing residential units for low- and middle-income residents of a zone.

Because minority owned businesses have traditionally been a vital source in providing job opportunities for the Black community, we are recommending several proposals designed to promote minority and women owned businesses. We note, as an example, that several of the incentives included in the bill, such as the investment tax credit, directly or indirectly exclude business ventures that are traditionally associated with minority owned businesses. In addition to making certain recommendations to resolve these perceived inequities in the tax incentives, we recommend that certain funds that are already available through other legislative initiatives be targeted to minority and women business enterprises located in the zones.

Lastly, we believe that the State, as well as the participating local governments must show their commitment for the long-term development of these goals by providing incentives, technical assistance and, where necessary, funds for infrastructure improvements such as street, lighting, sewer improvements and especially increased security in the targeted areas. While we recognize that such facilities should be the primary contribution of local governments, we also believe that the legislation should mandate certain improvements as a condition to a favorable determination for zone designation. For those areas where technical and funding assistance is necessary to implement such improvements, the State should stand ready to assist. We also feel that improved support services such as day care and health facilities are as essential to the long-term revitalization of a community as the attraction of well-established businesses to a targeted area. Only with these infrastructure and support service improvements do we believe that the incentives created by this legislation will prove meaningful to both private enterprise and the communities.

We recognize that a commitment to increase tax incentives as well as to provide adequate funding assistance for these recommendations necessitates an increase in State budget appropriations as well as a loss of revenues during the term of the tax credits. However, any temporary loss of revenues or increased funding requirements will more than be recaptured by increased employment and business contributions as well as increased housing assessments, thereby resulting in a net gain. Therefore, we believe that our recommendations will have no significant fiscal impact on State and local revenues, as the creation of jobs, business opportunities and housing will more than offset the "costs" incurred by the State.

Accordingly, the Subcommittee on Economic Development and Finance is pleased to submit the enclosed preliminary recommendations on the proposed opportunity zone legislation.

Very Truly Yours,

Paula L. Chester, Co-Chairman
Subcommittee on Economic
Development and Finance

Summary of Recommendations to the
Governor's Proposed Opportunity Zone Legislation
Submitted By
The Subcommittee on Economic Development and Finance
# of the
Governor's Advisory Committee for Black Affairs

I. Criteria for Zone Designation

1. Section 958 (b) of the bill limits the number of designated zones to one per county. We recommend that provision be made four two zones in any county with a population base exceeding one million, provided all the other conditions are met or, alternatively, permit one administrative structure for multiple sub-sites.

2. Section 958 (a) (iii) limits the size of each zone to for hundred acres defined by a contiguous border. We propose that there be an exception from the four-hundred-acre limitation for those applications that include a housing development component as part of their zone development plan or where there is a higher density population that would require a larger zone.

3. The criteria for zone designation should be amended to require evidence of chronic pervasive poverty and general distress such as a decline in population or a continued increase in unemployment over a period of years.

II. Process for Designating Zones

1. Section 960 (a) (ii) provides that no application shall be accepted unless the applicant demonstrates that it has, to the maximum extent feasible, solicited and considered the views of the residents of the proposed zone. Section 960 (b) (v) further provides that each application must include evidence that to the maximum extent feasible, the views of the residents of the proposed zone nave been solicited. We would require a community hearing process prior to the application that has considered the boundaries of the proposed zone, the initial plans for developing the zone and the proposed implementation and timetables for the development of the zone.

2. We also recommend that there be included in the bill an "interim" designation period, not to exceed one year, during which an applicant may receive technical, planning and marketing assistance from the Urban Development Corporation or State agencies, as appropriate to formulate a comprehensive zone plan. Therefore, we recommend that the time periods prescribed by Section 959 paragraphs (b) and (c) be amended to provide for extended time periods to incorporate the interim designation periods and new sections be added where appropriate to provide for State staffing assistance to applicants in formulating comprehensive community zone plans.

3. Section 961 which enumerates certain issues which must be included in any opportunity zone development plan filed with the Director of Opportunity Zones requires a "description of activities designed to promote the meaningful participation of minority and women business enterprises in opportunity zone development activities." We recommend that this section be amended to provide that where there is a significant minority population in a proposed zone, such opportunity zone development plan designate at least one-third participation by minority and women business enterprises in those areas of the zone targeted for business development. If the plan does not provide for such a designation in the areas targeted for business development, a statement to that effect with such documentation as is necessary to support a rational basis for non-inclusion should be provided.

III. Zone Administration

1. The legislation as currently drafted, contemplates the administration of a zone to be the responsibility of an Opportunity Zone Administrative Board. We would recommend that Section 962 and the appropriate definitions included in Section 957 be amended to require each zone to be administered by an Administrative and Policy Board, 75 percent of whom are long-term residents of the area designated as a zone. Further, we recommend that each zone designate an Administrator who would be a member of the Administrative and Policy Board and serve at the direction of the Board and whose activities are enumerated in Section 962.

IV. Termination of an Opportunity Zone

1. Section 965 (a) provides, in part, that designation of an area as an opportunity zone shall remain in effect during the period

beginning on the date of designation and ending ten years thereafter. In view of our proposal, relating to an "interim" designation period for comprehensive planning by the applicant in cooperation with State agencies, we recommend that this section be amended to provide that the ten-year period shall commence on the date of a final designation.

V. Additional Provisions for the Promotion of Minority and Women Business Enterprises

1. We recommend that the bill be amended to provide for an allocation of appropriated funds from the Equity Capital Corporation, the States' new venture capital program, for minority and women business enterprises located in opportunity zones for the purpose of providing equity capital to such enterprises.

2. Similarly, we recommend that the bill be amended to provide for allocation of appropriated funds from the Industrial Development and Export Finance Corporation, a subsidiary of the Urban Development Corporation, for minority and women business enterprises located in opportunity zones.

VI. Amendments to the Tax Credits and Abatements Included in the Legislation

1. Section 5 of the bill, which amends the Real Property Tax Law by adding Section 485-e thereto, grants an exemption from increases in real property taxes on new construction or rehabilitation for a period of ten years.

(a) We recommend that paragraph (b) (3) of this section be amended to provide that any expiration or earlier termination of a zone pursuant to section 965(a) not operate to terminate any real estate tax abatements already granted to businesses that have located in the zone prior to the expiration or earlier termination of a zone.

(b) We believe that this section could provide a valuable incentive for the development of low and middle-income rental housing and home ownership programs. Accordingly, we believe that this section should be expanded to provide similar tax abatements for residential property developed in a zone during the period of zone designation.

2. Sections 7 and 13 of the bill generally provide investment tax credits to corporate and individual taxpayers equal to 10 percent of the cost or other basis of tangible personal property (including building and structural components of buildings) which is located in a zone, provided the construction of such property occurred or was commenced after the designation, but before the termination of a zone.

(a) We recommend that paragraph (b) of this section be amended to delete the requirement that the building and its structural components must be used by a taxpayer in the production of goods by manufacturing, processing, assembling, refining, mining, extracting, farming, agriculture, horticulture, floriculture, viticulture or commercial fishing. The State of New York and the City of New York, in particular, have a large service economy and minority business have, likewise, been engaged in service-type enterprises. This condition, however, would limit minority-owned businesses not engaged in manufacturing from benefitting from the proposed credit, thus placing them at an inequitable disadvantage in rehabilitating abandoned or vacant property. Therefore, we believe that this requirement, which discriminates in favor of manufacturing enterprises, should be deleted.

(b) We would also recommend that the prohibition contained in paragraph (c) of this section, which disallows a credit with respect to any property which the taxpayer leases to any other person or corporation, be deleted. Such a prohibition on leased property significantly impedes the construction by private developers of office buildings or industrial parks which may, very likely, be an important component in the revitalization of a zone. Moreover, the denial of the credit to developers of office buildings and industrial parks, in which small sites may be leased to start-up ventures, results in the subsequent discrimination against non-manufacturing ventures many of which will be minority and women business enterprises. The types of employment opportunities that are created in an office atmosphere are important to the development of job growth in the targeted areas. Accordingly, we believe the prohibition on leased property should be deleted.

3. Section 6, of the proposed bill grants a reduction of 3 percent in the rate charged for gas, electricity, steam or water service used within a designated area for non-retail business customers. For the same reasons outlined in item 2 above, we would recommend that the exclusion of retail enterprises be deleted.

4. Sections 9. 14, and 30g of the bill generally provide wage credits against personal income taxes (Section 9), corporate franchise taxes (Section 14) and insurance corporate taxes (Section 30g) for wages paid to employees who are zone residents, JTPA eligible, or public assistance recipients for years 1 to 6 at 25 percent decreasing to 10 percent on wages up to $10,000.

(a) We believe that the structure of the wage credits could be a disincentive to promotions and/or pay raises, and do not provide adequate incentives for job training or employing youth. In addition, the proposed structure does not provide adequate safeguards to newly trained employees upon reaching the proposed wage ceiling. We therefore recommend, alternatively, a three-year, $3,000 wage credit ($1500 the first year, $1,000 the second year, and $500 the third year) against personal income, corporate franchise and insurance corporate taxes for each full-time job created for an employee who is a zone resident, on public assistance or is JTPA eligible. We also recommend an additional credit be given for each full-time or part-time job created for an employee who meets the above criteria and is under 25 years of age. Finally, there should be an innovative technology credit given to employers who train employees, meeting the above criteria, in non-obsolescent jobs skills. These credits should not exceed in the aggregate, $2500 per employee in any given taxable year.

(b) Subdivision 5 of Section 9, provides that the employee wage credit will be allowed provided at least 20 percent of the employees, excluding general executive officers, are residents of the zone or of a contiguous tract. We recommend that general employees could operate to grant the credit when less than 20 percent of the employees are, in fact, zone residents. Further, we recommend that the percentage of employees who must be zone or contiguous area residents be raised from twenty percent to sixty percent.

VII. Infrastructure Improvements and Improved Support Services

1. Section 961 which enumerates certain issues which must be included in an opportunity zone development plan requires in subparagraph (c) a description of the applicant's proposals for infrastructure improvements and investments and a timetable for completion. Nothing in the legislation, however, mandates such improvements in attracting businesses to locate in the designated areas. Tax credits and similar incentives cannot stand alone as the only attraction for long-term redevelopment plans. Therefore, we believe that this section should be amended to mandate certain improvements as a condition to a favorable determination for zone designation. In addition, we would like to see State funds allocated for matching grants to successful applicants for infrastructure improvements.

2. We also recommend that the bill be amended to provide technical and, where necessary, funding assistance by the appropriate State agencies for self-help programs initiated by zone residents to make improvements such as parks, playgrounds or other recreational facilities. In addition, a preference should be given for a portion of any real property located within the zone that is unused State or municipal property for the development of park, playground or other recreational facilities by zone residents.

VIII. Additional Incentives

(a) We would like the Governor's staff to explore the feasibility of provide tax credits or other similar incentives to employers who, either alone or in cooperation with other opportunity zone employers, implement, support or facilitate the location of quality child care programs for their employees.

(b) Because employee stock ownership plans have traditionally provided a valuable incentive for increased productivity, which at the same time providing employees an equity share in such increased productivity, we are recommending that the legislation be amended to provide a tax credit or some other similar incentive to employers that initiate employee stock ownership plans for their employees. Likewise, we recommend that any dividends paid or accrued on stock acquired by employees pursuant to such plans not be includable in such employee/-taxpayer's calculation of income for State personal income tax purposes.

(c) We are considering additional incentives in the development of low-and middle-income housing. As an example, we would like to see unused municipal and State properties be developed by private real estate developers, thereby decreasing the cost of the land and construction. This reduction in costs can be passed on to the purchasers of such improved residential units and recaptured by the State or municipality upon resale by granting participating equity mortgages. We will continue to explore alternative housing incentives as this is an essential element to our concept of comprehensive master planning.

APPENDIX B

November 3, 1986

Mr. Anthony Gaetano, Vice President
Urban Development Corporation
Acting Director, Economic Development
Zones Program
1 Commercial Plaza - 9th Fl.
Albany, New York 11245

Dear Mr. Gaetano:

I would like to take this opportunity to thank you for taking time out from your busy schedule to meet with me and Mr. Harry Wells to discuss some of the activities of the Subcommittee on Economic Development and Finance of the Governor's Advisory Committee for Black Affairs. Also, pursuant to your request, I am enclosing a copy of the Subcommittee's letter dated June 23, 1986 which outlined our recommendations relating to the originally proposed "Opportunity Zones" legislation.

You will note that several of our concerns were addressed in the final Economic Development Zones legislation. In addition, I have been advised by you as well as Mr. Tese and Mr. Sullivan that each of you believe that certain of our recommendations can be implemented administratively. Mr. Tese also suggested that certain legislative amendments that we have recommended in the investment tax credit section (at least to the extent of minority and women-owned business) and the sales tax refund or credit section of the Act could be introduced by the administration without any controversy or possible disruption of current budget or tax policies. We, of course, would like to see our recommended amendments introduced sometime during the next legislative session and will be available to meet with you or the appropriate staff persons to formulate a draft bill.

I was also delighted to hear that you are likewise concerned with how a housing component may be incorporated in the existing Economic Development Zone scheme. This Committee cannot over-emphasize the need for such a housing component and the creation of incentives for the development of low and middle-income housing. Those areas that have been specifically targeted for revitalization are in dire need of new housing and rehabilitation programs for their residents. It is also an important component in our concept of creating effective community master plans. As you know, the new Tax Reform Act, that has now been signed into law by the President, severely limits the amount of tax-exempt private activity bonds that a State may issue. Accordingly, alternative methods will have to be explored by the State for those residents that have traditionally sought state subsidized mortgage rates. In addition, because many of the tax incentives created under the old tax law to private developers of real estate are no longer available, it is imperative that the State fill the void created by the Tax Reform Act and create new incentives to private developers. I would like to continue discussing with you and others in the State's housing area how we may assist the State in its obligation to be creative.

You will also recall that another one of our principal concerns was the creation of a mechanism for funding the venture capital corporations established pursuant to the Economic Development Zones Act. We continue to express our concern that minority and women-owned enterprise do not have access to equity capital traditionally available to other small business firms. In a report of the SBA Task Force on Venture and Equity Capital for Small Business, January, 1977, the Task Force identified five stages in the life cycle of a new enterprise in addition to the initial research and developmental stage of the company. The report noted that in the research and developmental and start-up stages of a company's life cycle, the average size of "equity financings" range from as low as $100,000 to as high as $750,000. The principal sources for financing during these early stages are from personal investments of founders, individual investments by their friends and associates and private venture capital firms. Corporate borrowings from commercial banks were not identified as principal financing sources of small companies until the company had a equity base of approximately $1,500,000 at which time revenues for such companies ranged from between $2,000,000 and $10,000,000. Insurance companies as a source of financing do not traditionally enter into the total financing picture until even later stages of a company's life cycle.

Minority-owned businesses, however, have traditionally been unable to tap the same sources for "seed" capital as other small businesses. It is imperative, therefore, that venture capital sources be created by the State to supplement the early stages of equity financing, rather than merely supplementing the traditional lending sources, such as commercial banks. Existing programs only supplement what is needed by companies who are beyond the start-up stages of growth. The State, therefore, must continue to explore alternatives to equity financings so that small start-up companies are not immediately impeded by high debt-to-equity ratios that never allow them grow. Leveraging that which is only in its infancy becomes the primary reason for failure. The State, therefore, must become a risk-taker.

The State must also encourage risk-taking participation by our major investment banking firms. New York is the financial capital of the world. As these firms continually profit from the same types of financial transactions on a global basis, they must take the same risks and, therefore, make the same financial commitment to the minority entrepreneurs of this State. As a beginning, the State of New York should encourage the financial giants to participating investment banking and venture capital firms an association whereby they pool their monies to invest in venture capital zone corporations. I assume that as a condition to their participation, they would want representation on the various boards of directors of the venture capital corporations. If additional incentives are needed for their participation, not only on a funding level but also as financial consultants, they should be actively explored.

The Subcommittee on Economic Development and Finance would like to continue exploring with you our idea of sponsoring a round-table forum with investment banking and venture capital firms to see how they can participate in raising capital for the economic development zone venture capital corporations. Mr. Tese and Mr. Sullivan, both of whom endorsed the concept of establishing a consortium of investment bankers to fund the venture capital corporations, suggested that we contact you so that we may all work together on this project. Mr. Sullivan also indicated that this concept is very similar to what the State has done in the banking industry in establishing a consortium of major banks to provide below-market rate financing. We also note the recent establishment of a consortium of eight major New York insurance companies in providing mortgage money for the development and/or rehabilitation of low-and middle-income housing. We hope to develop this program with you and our staff and sponsor our round-table forum some time during the beginning of next year.

In addition to developing this forum, our Committee would like to be kept apprised of how the Economic Development Zones Program is progressing. As I indicated to you, we have identified this program as one of our principal concerns. We would like to meet with you at your earliest convenience which you have indicated would be some time during the second or third week of November. Accordingly, I have tentatively scheduled a Subcommittee meeting for the morning of Friday, November 14th at our offices at Two World Trade Center, 57th floor. If this is not convenient for you, we can reschedule for the following Friday. Please let me know at your earliest convenience so that I can notify the members of the Subcommittee.

We would also like to establish with you and your staff a continuing relationship so that we may be of service to you in implementing the zones program. If we can be of any assistance, please feel free to call me at (212) 980-1400, Ext. 350.

Very truly yours

Paula L. Chester, Esq.
Co-Chair

PLC:at
cc: Mr. Vincent Tese
Mr. Alan Sullivan
Enclosure